

***United States Court of Appeals
for the Second Circuit***



**BRIEF FOR
APPELLANT**

74-2452

IN THE
United States Court of Appeals
FOR THE SECOND CIRCUIT

DIEMATIC MANUFACTURING CORP.,

Plaintiff-Appellee,

—against—

PACKAGING INDUSTRIES, INC.,

Defendant-Appellant.

On Appeal from the United States District Court
for the Southern District of New York

BRIEF FOR DEFENDANT-APPELLANT

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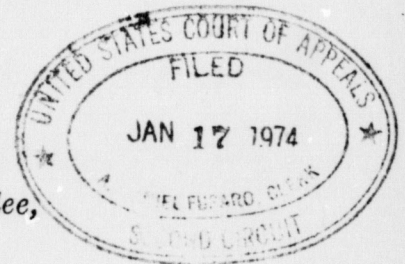




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DIEMATIC MANUFACTURING CORP.,

Plaintiff-Appellee,

-against-

PACKAGING INDUSTRIES, INC.,

Defendant-Appellant.

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ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

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BRIEF FOR DEFENDANT-APPELLANT

PRELIMINARY STATEMENT

This appeal is from an order of the United States District Court for the Southern District of New York, Lloyd F. MacMahon, District Judge, entered on October 2, 1974 (A122*).

The District Court's memorandum decision, not yet reported, granted plaintiff's application for a stay of a pre-existing arbitration proceeding between the same parties which had been instituted by defendant to resolve factual issues arising out of a dispute respecting a contract between the parties. That contract, in the form of a settlement agreement, was entered into by the parties in 1968 in settlement of prior litigation between them also commenced in the Southern District of New York. The contract calls for arbitration of all disputes between plaintiff and defendant arising out of the settlement.

The District Court simultaneously denied defendant's cross motion for a stay of the instant action pending a determination of the fact questions submitted to arbitration and denied defendant's motion to dismiss plaintiff's complaint for

* All references, unless otherwise indicated herein, are to the appendix filed herewith by appellants which, by agreement with counsel to appellees, contains all relevant portions of the record below.

its failure to state a claim upon which relief can be granted. The motion to dismiss was based on the ground that the 1968 judgment of dismissal of the prior action is res judicata to all the claims in the instant action, and the obvious fact that the present action was instituted as a purely defensive mechanism in an attempt to bestow technical jurisdiction upon the District Court over the issues pressed by the plaintiff and prevent arbitration.

In determining the various motions before it the District Court held that a patent licensee's written promise not to contest the licensor's patent is unenforceable as a matter of law. The District Court also ruled that a licensee who wishes to avoid arbitration of disputes arising out of a settlement agreement may circumvent, with impunity, a broad arbitration clause negotiated for, and contained within the agreement by merely instituting a federal court action alleging patent invalidity and anti-trust claims. Moreover, the District Court ruled that the licensee may take this action notwithstanding the fact that the plaintiff-licensee here executed stipulations of dismissal, with prejudice, of prior federal (A98) and state court (A100) actions between the parties which involved the same issues and the settlement of which resulted in the agreement now being repudiated by plaintiff.

ISSUES PRESENTED

Whether the District Court erred, as a matter of law, by ruling that a judgment of dismissal with prejudice of a prior action between the same parties involving the identical claims and issues is not res judicata in this action?

Whether the District Court erred, as a matter of law, by ruling that the demand for arbitration gave rise to an actual controversy between the parties thus validating the declaratory judgment action filed requiring that the arbitration be stayed because the action and the arbitration demand present questions which are subject to exclusive federal jurisdiction?

STATEMENT OF THE CASE

I - History of the dispute between these parties

A. Prior Litigation - Same Claims and Issues Settled and Dismissed with Prejudice in 1968

In 1965 Packaging Industries, Inc. (hereinafter "PI") instituted an action ("1965 action" or "litigation") against Diematic Manufacturing Corp. (hereinafter "Diematic") in the United States District Court for the Southern District of New York entitled: "Packaging Industries, Inc. v. Diematic Manufacturing Corp." (65 Civ. 2007).^{*} In the 1965 action PI sought relief from Diematic's alleged infringement of PI's patent No. 3,170,275 entitled "Means for heat sealing lids on blisters".

This 1965 litigation continued for a period of three years during the course of which Diematic filed an answer and an amended answer and extensive discovery was held.^{**}

^{*} The 1965 litigation between these parties is of significant import to the present appeal and this Court is therefore requested to take judicial notice thereof in considering this appeal. In order to facilitate reference to the pleadings in the 1965 litigation appellant has appended hereto, in an addendum, the Complaint, (Bill of Infringement) Answer, Reply to Counterclaim, Amended Answer, Reply to Second Counterclaim, the Pre-Trial Order, and the Judgment of Dismissal, with prejudice. A related action was also commenced in Supreme Court, New York County which was likewise discontinued upon the settlement and dismissal of the 1965 Federal action. (A100)

^{**}Both sides conducted examinations resulting in several hundred pages of transcribed testimony and interrogatories were served and answered.

Diematic's pleadings in the 1965 action denied infringement and affirmatively alleged 1) the invalidity of PI's Letters Patent No. 3 170,275 and 2) that PI's Patent had been fraudulently secured and its use was therefore a violation of the anti-trust laws. A closer analysis between Diematic's 1965 pleadings and its complaint in the instant action is made infra at p. 9.

B. Settlement and Dismissal of the 1965 Action

In 1968, after extensive discovery and on the eve of trial, this 1965 litigation was settled and said settlement took the form of a Stipulation of Dismissal, with prejudice (A98; the "so ordered" copy is reproduced in the addendum hereto) executed pursuant to and simultaneously with a Settlement Agreement (hereinafter "Agreement") dated June 6, 1968 (A96). Among other provisions, the Agreement granted Diematic a license "to make, use and sell, for the term of nine (9) months, trays, embodying and/or for practicing one or more of the inventions claimed by the Licensed Patent [#3,170,275] relating to trays and to have repair and replacement parts made for such trays..." (41). The Agreement as well provided for royalty payments to PI for the nine month period during which Diematic was licensed to use and sell PI's patented invention(A43). Moreover, the Agreement contains an admission by Diematic of the validity of PI's Patent No. 3,170,275 and Diematic's further agreement not to contest its validity (A45).

In turn, as part of, and appended to the Agreement, PI executed a covenant (A10; appendix C to the Agreement) wherein it promises not to sue Diematic if, after the nine month license period expires, Diematic manufactured trays conforming to the specifications then contained in Diematic's then pending patent application for a competing machine (A89).

The Agreement also contains the following arbitration clause:

"Questions of interpretation, enforcement and all disputes between the parties arising from this agreement shall be submitted to arbitration in New York City under the rules and auspices of the American Arbitration Association. This agreement shall be deemed to have been executed in New York and the parties hereto agree that the law of New York shall apply". (A96).

Lastly, a formal stipulation of discontinuance of this 1965 litigation, with prejudice, was executed by both parties, filed and "so ordered" by the District Court (A98). Thus, did this prior litigation terminate between PI and Diematic, wherein Diematic's claims of non-infringement, invalidity, and anti-trust violations were fully investigated.

C. Events Since 1968 Leading to the Present Action

As the Court below stated "[a]ll remained peaceful between the parties until March 20, 1974, when PI filed a demand

for arbitration", (All0) against Diematic alleging that Diematic had continued to merchandise PI's patented machine well beyond the original nine (9) month license period and indeed right into 1974 (A63) in violation of the Agreement executed in 1968 settling the 1965 action.

Thereafter, on April 5, 1974, Diematic brought this action alleging the same causes of action and seeking, except for the stay of arbitration, the identical relief it had asserted in its original counterclaims in the 1965 action between the same parties.

Upon the filing of its complaint, Diematic moved for an order seeking a stay of PI's previously instituted arbitration proceeding and PI cross-moved for an order staying this action pending a determination of the factual issues submitted to arbitration. Also heard and determined by the District Court, at the same time as the cross-motions seeking stays, was PI's motion to dismiss the complaint by reason of lack of jurisdiction and the complaint's failure to state a claim upon which relief could be granted.

The District Court denied PI's motions to stay the action and/or to dismiss the complaint but granted Diematic's application for a stay of arbitration.

II. Current Proceedings and Action

A. Arbitration

As above stated, PI instituted an arbitration proceeding in March 1974 (A24) upon discovery that Diematic was still selling PI's patented product (A63), the right to do so having terminated in March 1969 (A66).

PI's Demand instituting arbitration (A24) asserts that Diematic has "breached the ... Agreement" (A53) by continuing to manufacture, use and sell trays covered by PI's Patent 3,170,275. In the way of relief, PI seeks "[a] full and accurate accounting of all revenues" derived by Diematic from such manufacture, use and sale of PI's patented product, as well as an injunction against such further activity (A54).

B. The Instant Action

Fifteen days after PI's arbitration demand was served Diematic instituted the present action (A4). By this means, Diematic hoped to preclude the continuation and quick resolution of the factual issues presented to arbitration. The District Court held that PI's arbitration demand gave rise to an actual controversy between the parties and that PI's claims involved questions of patent validity which come under the exclusive province of federal jurisdiction. Thus, the arbitration was stayed.

C. Similarity Between Diematic's Counter-Claims Asserted in the 1965 Action, Prejudicially Dismissed in 1968, and its Claims Asserted in its 1974 Complaint.

To say that Diematic is having a "second bite at the apple" if permitted to proceed with this action is self-evident; to permit it however is to sanction the complete disregard of 1) the Agreement and 2) the judgment, dismissing the 1965 action, on its merits.

A review of and comparison between Diematic's claims asserted in 1965* and in 1974 reveals their identical substance and requires the application of the principles of res judicata to the present action precluding its prosecution.

	Diematic's Counter-claims in 1965 Action (<u>See addendum hereto</u>)	Diematic's Claims in Present Action
Alleged: non-infringe- ment	Answer Paragraphs FOURTH; FIFTH; SIXTH; TWELFTH; THIRTEENTH; FIFTEENTH	Count I - Para- graphs 12; 17; 18; 19; 20; 21
Invalidity of PI's Patent	Answer Paragraphs THIRD; SEVENTH (a) to (1); FOURTEENTH	Count I - Para- graphs 13; 15(a) to (m); 16
Anti-Trust Violations	Amended Answer - Second Counterclaim Paragraphs SIXTEENTH to TWENTY-SEVENTH	Count III - Para- graphs 34 to 53

* See addendum hereto particularly for the Pre-trial Order signed on the eve of trial in the 1965 action defining the claims and issues presented.

ARGUMENT

POINT I

THE SETTLEMENT AND JUDGMENT OF
DISMISSAL OF THE 1965 LITIGATION
BETWEEN THESE PARTIES IS RES
JUDICATA TO THE CAUSES OF ACTION
PLEADED IN THE PRESENT COMPLAINT
AND REQUIRES ITS DISMISSAL

The present action, instituted by Diematic in an effort to preclude the continuation of the prior arbitration proceeding, seeks to re-litigate, in every respect, the questions presented in the 1965 action which ended in a judgment of dismissal, on the merits.

The similarity between the causes of action pleaded by Diematic in 1965 and 1974 is obvious; no new matter is asserted by Diematic in its 1974 complaint which was not pleaded by it in its 1965 counterclaims. After more than three years of vigorous discovery and motion practice the 1965 action was settled and prejudicially dismissed by Court Order*

* A judgment by consent is given the same res judicata effect as a judgment by the court. See generally, IB Moore's Federal Practice ¶ 0.409[5](1974). Moreover, a judgment on the merits will be given res judicata effect even if prepared and signed by the court's clerk. Commissioner of Internal Revenue v. Bedford's Estate, 325 U.S. 283, 286 (1945). A judgment is no less the act of the court if the clerk does all of the ministerial acts in conformity with his court's standing instructions. Ex parte Morgan, 114 U.S. 174, 175 (1885). Rule 58, FRCP, provides generally for the entry of judgment by a clerk. However, standing instructions of a particular court may supplement this rule provided they are consistent. 6A Moore's Federal Practice, ¶ 58.04, pp. 58-105 (1974). The District Court for the Southern District of New York has such a rule requiring clerks to sign orders of dismissal, with or without prejudice, on consent. See, Rule 12, General Rules for the Southern and Eastern Districts.

on July 17, 1968 (See addendum). That dismissal was on the merits and precludes re-litigating the causes of action and issues framed in the 1965 pleadings by virtue of the principles of res judicata. Broadview Chemical Corp. v. Loctite Corp., 474 F.2d 1391 (2nd Cir. 1973); Hopp Press, Inc. v. Joseph Freeman & Co., 323 F.2d 636 (2nd Cir. 1963); Addressograph-Multigraph Corp. v. Cooper, 156 F.2d 483 (2nd Cir. 1946); Lawlor v. National Screen Service Corporation, 349 U.S. 322, 75 S. Ct. 865 (1955); cf. Blonder-Tongue Lab., Inc. v. Univ. of Illinois Found., 402 U.S. 313, 91 S. Ct. 1434 (1971).

The Court below clearly erred when it held that the 1968 Agreement and court order dismissing, with prejudice, the 1965 action were mere contracts which could be overridden by public policy considerations (A117-118).^{*} As to Diematic's claim of patent invalidity and anti-trust violations (the latter claim is based solely upon the alleged misuse of an invalid patent) the settlement Agreement and judgment of dismissal, with prejudice, operate as res judicata and those causes of action are forever barred to Diematic as against PI. With regard to Diematic's

* The issue of res judicata was before the District Court by virtue of PI's motion to dismiss the complaint for failure to state a claim upon which relief can be granted on the basis of the dismissals of the 1965 actions (A87,98,100). See, Rule 12(b)(6), Federal Rules of Civil Procedure; 1B Moore's Federal Practice, ¶10.408[1] P. 951 (1974).

assertions of non-infringement, the 1968 settlement and dismissal limit the re-assertion of such a claim against PI only in the context of an arbitration proceeding - either by way of a defense to the arbitration proceeding instituted by PI in March 1974, or as a basis for instituting Diematic's own arbitration proceeding in the event of threatened action by PI or the latter's interference with Diematic's proper business conduct. Any contrary conclusion renders trivial the 1968 settlement and judgment.

The District Court well recognized that the 1968 Agreement between these parties constituted a settlement of the litigation then pending (A109; A111-112) but characterized it solely as a license agreement. However, that Agreement, pursuant to which the judgment of dismissal was filed, is more than just a mere license: in addition to granting Diematic a license for the use of PI's United States Patent 3,170,275 for nine months in exchange for royalties, the Agreement also provided for: payment by Diematic of \$2,500 for past infringement, (A44); a stipulation of dismissal with prejudice of all pending claims and counterclaims, (A44-45); admissions of validity of the subject patent, both by Diematic and its principals; and for arbitration of all questions of enforcement of the agreement (A45).

The conduct and termination of the prior litigation between these two parties therefor presents the classic circumstance when res judicata is applicable. It has been so applied by

this Court in Broadview v. Loctite, supra. In Broadview this Court held that a consent judgment in a patent infringement action which includes adjudications of validity and infringement is res judicata on the issue of validity in a subsequent action between the same parties. Moreover, the Broadview decision specifically held that a consent decree which recites a payment for past infringement, as Diematic paid PI in 1968 (A44), contains the requisite adjudication of infringement to give the decree res judicata effect.* Diematic cannot gainfully argue that its payment to PI in 1968 was not a payment for past infringement. The wording of the Agreement is clear that the \$2500 paid by Diematic was "as a paid up royalty and settlement in full for all apparatus embodying and/or practicing said inventions made, made for it, used or sold by LICENSEE prior to the date of this agreement". (A44).

The Broadview ruling, which PI urges is completely dispositive of this appeal, follows the rule of law set out in Addressograph, supra, wherein this Court held:

* Business Forms Finishing Service, Inc. v. Carson, 452 F.2d 70 (7th Cir. 1971) and Massillon-Cleveland-Akron Sign Co. v. Golden State Advertising Co., 444 F.2d 425 (9th Cir. 1971), cert. denied 404 U.S. 873 (1971), rehearing denied 404 U.S. 961 (1971), relied on by the Court below here (A114,117), are not to the contrary. In Carson, the decree did not contain an adjudication of infringement and in Massillon-Cleveland, the settlement did not involve litigation.

"...[I]n a decree, at least in one entered by consent, either an adjudication of infringement, or a grant of some relief from which infringement may be inferred, is essential before any effect of res judicata can be given to it on the issue of validity." 156 F.2d at 485 (emphasis added)

Moreover, the Broadview decision specifically rejected the argument advanced there, and adopted by the Court below here (A117-118), that Lear v. Adkins, 395 U.S. 653 89 S. Ct. 1902 (1969) was sufficient authority upon which to base a refusal to apply principles of res judicata. Requested to hold that Addressograph was no longer the applicable law by virtue of Lear this Court held:

"Appellant cites no authority for this extension of Lear to the consent decree cases where there has been a prior adjudication of infringement." 474 F.2d at 1395*

It is not without sound reasoning that this Court rejected the application of the Lear holding to the Broadview situation. Indeed, the authority is clearly to the contrary. United States ex rel. Shell Oil Co. v. Barco Corp., 430 F.2d 998 (8th Cir., 1970); Crane Boom Life Guard Co. v. Saft Boom Corp., 362 F.2d 317 (8th Cir. 1966), cert. denied

* Indeed, Addressograph was not premised on the doctrine of licensee estoppel invalidated in Lear, but rather was premised on jurisdictional considerations. See Cover v. Schwartz, 133 F.2d 541 (2nd Cir. 1942).

386 U.S. 908 (1967); Schlegel Manufacturing Co. v. King Aluminum Corp., 369 F.Supp. 650 (S.D. Ohio 1973); Halm Instrument Co., Inc. v. Sigma Engineering Service, Inc., 42 F.R.D. 416 (W.D. Pa. 1967); Schnitger v. Canoga Electronics Corp., 462 F.2d 628 (9th Cir. 1972).

The Supreme Court in Lear v. Adkins held that, as between the contract common law doctrine of licensee estoppel and federal public policy favoring the exposure of worthless patents, the federal policy must prevail and the licensee may assert invalidity when sued for royalties.* However, the Lear case did not follow upon the heels of settled prior litigation or a consent decree or a judgment of dismissal on the merits; Lear followed the making of a contract only, and prior judicial approval of the relationship or rights and duties was not present, nor were the facts, here admitted, that the licensee had infringed the patent, paid the patent holder for such infringement (A44) specifically admitting the patent's validity (A45).

Notwithstanding all assertions to the contrary, Lear stands only for the proposition that a patent licensee cannot

* Which is precisely what Diematic asserted in the 1965 action when sued for infringement.

be assumed to have impliedly admitted the validity of the patent merely because he entered into a license agreement. Unlike the Lear situation however, Diematic here litigated validity and non-infringement of PI's patent as well as the same anti-trust claim from 1965 to 1968 and conducted full discovery in that prior action before entering into the Agreement and stipulating a judgment of dismissal.* As was stated by the Court in Schlegel, supra:

"Once parties invoke the aid of a court of the United States to settle their affairs, they do far more than simply make a common law contract. See, Lear, supra. Sound considerations of judicial policy, not to mention a sense of respect for the Courts, require that parties not be allowed to implore a judge of the United States to sign a judicial decree, and then later implore him to regard his signature for naught. Courts of the United States are not to be so used; it is imperative that all litigants recognize this. Therefore, when a defendant, as here, admits the validity of a patent in a consent decree, he is thereafter estopped,

* The oft cited (All8) expression of concern in Lear that a licensee might be deterred from prosecuting an action against the patentee-licensor or defending an action for royalties because of litigation costs is demonstrably absent here. The 1965 action was vigorously prosecuted by both sides for three years and then settled. It cannot be gainsaid that either Diematic was forced into a settlement or that PI was coerced into granting a license. Both parties obviously had sound business reasons for agreeing as they did, on the eve of trial, and after incurring the normally extensive costs of pre-trial discovery. Moreover, the costs of trial would not have been burdensome in view of the attorneys' agreement that only five trial days would be required. (See addendum, Pre-trial Order ¶8(a)).

although other parties are not, from raising the issue of validity." (369 F. Supp. 650 at 653).

The only holding found which arguably comports with the District Court's decision here, and which surely conflicts with Broadview, is Kraly v. National Distillers and Chemical Corp., 319 F.Supp. 1349 (N.D. Ill. 1970), aff'd. July 25, 1974 (7th Cir.), unpublished opinion.* In Kraly the Circuit Court found that the consent judgment there involved lacked an adjudication of infringement (slip opinion, pp. 4-5, n.4) but nevertheless went on to hold that the public policy considerations enunciated in Lear would compel a refusal to apply res judicata even if the decree had contained an adjudication of infringement (slip opinion, p. 5). The Kraly extension of Lear was unnecessary to a decision therein and was unjustified both from the viewpoint of the Lear holding itself and from the viewpoint of the finality of prior litigation between identical parties.

It is clear, however, that the Circuit Court in Kraly was not entirely comfortable with its conclusion insofar as it asserted that Broadview was in accord with its position.

* See also Butterfield v. Oculus Contact Lens Co., 332 F.Supp. 750 (N.D. Ill. 1971), a decision by the same District Court Judge as decided Kraly.

(slip opinion, p. 4). In the first place, Broadview does not accord with Kraly, nor does Addressograph which the Seventh Circuit distinguishes, somewhat inadequately, on the basis that "the parties [in Kraly] were ordered to bear their own costs and fees." (Id. at 5).

The confusion and discomfort of the Court in the Kraly decision is perhaps most evident in its strained attempt to circumvent the presence of a judgment of dismissal with prejudice filed by the parties in settlement of the prior action. The Court stated (Id. at 4, n. 3) that the district court, and not the parties, required the filing of a stipulated dismissal with prejudice in the prior action. Were the facts on this question different however, the Court opines:

"If the parties had requested a dismissal with prejudice, we would have no trouble concluding that the \$8,000 payment was a grant of some relief from which infringement can be inferred. Understanding that a dismissal with prejudice is res judicata as to all issues presented, the parties would clearly have intended the payment to represent an admission of infringement. Insofar as a stipulated dismissal is interpreted as denoting only what the parties acknowledged, it is unclear what effect the court's decision to enter the order with prejudice has on conclusions to be drawn with respect to what the agreement acknowledged." (Id. at 5, n. 4).

Having posited that a voluntary filing of a "dismissal with prejudice" would cause it "no trouble in concluding that

the ...[infringer's] payment was 'a grant of some relief from which infringement can be inferred...' and "understanding [that] a dismissal with prejudice is res judicata as to all issues presented, the parties would clearly have intended the payment to represent an admission of infringement..." the Kraly Court, while presuming to be in accord with Broadview, adds:

"Even if we assume, however, that the consent decree embodied an adjudication of infringement, we do not believe that the Lear rationale would necessarily be inapplicable." (Id. at 5).

It is suggested that the conflict inherent in the Kraly opinion coupled with its distinguishing feature of a court imposed dismissal with prejudice render it inappropriate as a statement of principle of general application. Neither Lear nor any other decision compels the conclusion reached in Kraly.

Practically and intellectually Broadview is the more solidly reasoned approach to the entire problem of patents and their protected monopoly which was of concern to the Supreme Court in Lear. While it may be defensible to argue that a holding of validity in one circuit, though persuasive, is not binding in any other circuit, Williams v. Hughes Tool Co., 186 F.2d 278, cert. denied, 341 U.S. 903, 71 S. Ct. 612, rehearings denied, 341 U.S. 934, 71 S. Ct. 802, 341 U.S. 956, 71 S. Ct.

1013 (1951) it is quite indefensible to posit that the same party may attack validity in the same circuit twice, even after a judgment of dismissal and settlement of the initial suit. Yet, the latter principle is exactly what the District Court here has sanctioned by its misplaced reliance on Lear v. Adkins. If permitted to prevail, this holding would allow unlimited collateral attacks upon judgments and/or orders of the courts in patent infringement cases and abrogate all concepts of judicial finality. Schlegel Manufacturing Co. v. King Aluminum Corp., 369 F.Supp. at 652.

Does a patent holder suffer such abhorrence at the hands of the law that his patent must be left subject to attack in successive suits in diverse circuits as well as in tandem suits in the same circuit by the same party notwithstanding dismissal on the merits of a prior action? It is hoped that it does not. PI urges this Court to find that the public policy declared in Lear has been satisfied here, as respects Diematic, when it had the opportunity in 1968 to try the issues of validity, non-infringement and anti-trust violations arising from alleged misuse of an invalid patent but chose to settle instead, while all other persons and entities remain able to contest PI's patent in any court in the land.

And while PI's demand for arbitration might ordinarily be held to give rise to an actual controversy, as found by the Court below (All4), such as would sustain Diematic's declaratory judgment action under other circumstances, the judgment of dismissal on the merits and the settlement agreement of the 1965 action compel the parties to resolve disputes only by arbitration and preclude collateral attack. United States ex rel. Shell Oil Co. v. Barco Corp., supra, at 1001-1002, n.8 (See Also, Point II, infra.) There is no aspect of PI's arbitration demand or of Diematic's complaint which can be considered to independently confer exclusive jurisdiction over the current action upon the federal judiciary in light of the res judicata effect of the 1968 judgment of dismissal and settlement.

Diematic's anti-trust claim (§2 of the Sherman Act, 15 USC §2; §4 of the Clayton Act., 15 USC §15) is as barred by res judicata as is its claim of patent invalidity upon which its anti-trust claim is based. Lawlor v. National Screen Service Corp., 349 U.S. 322 75 S. Ct. 865 (1955). This cause of action, set out fully in Diematic's pleadings in the prior litigation between the parties, (see addendum, "Amended Answer") was also ordered dismissed, with prejudice, as part of the 1968 settlement. As to this claim therefore, there has also been an adjudication on the merits in PI's favor. Id.; United States v. Swift & Co., 286 U.S. 106 at 119-120 (1932).

Because Diematic's anti-trust claim is based solely upon allegations of invalid patent misuse it renders Mercoide Corporation v. Mid-Continent Inv. Co., 320 U.S. 601 S. Ct. (1964) inopposite. In Mercoide, the party accused of patent infringement had failed to raise its anti-trust claims in the prior suit between the parties. In the subsequent litigation, the patentee contended that the anti-trust claims were barred by res judicata in that they could have been raised in the earlier suit. The Supreme Court held that under those circumstances res judicata did not apply. 320 U.S. at 669-670 S. Ct. at. However, where, as here, the identical anti-trust claim was fully aired and adjudicated, it is clear that res judicata does apply. (cf., Liuni v. Cover, et al. (S.D.N.Y., Docket No. 70 Civ. 471; March 24, 1972; unreported opinion, Ryan, D.J.; see also, United States v. International Harvester Co., 274 U.S. 693, 703 S. Ct. (1927).)

In the face of the settlement and judgment of dismissal of the 1965 action, involving the identical claims and issues raised in diematic's 1974 complaint, there exists no reason, public policy or private interest, to support Diematic's claims in the present action. Res judicata, not to mention ordinary considerations of fairness, require the dismissal of Diematic's complaint. It should have been so ordered. E. Ingraham Co. v. Germanov, 9 F.2d 912 (2nd Cir. 1925).

POINT

II

THE RES JUDICATA EFFECT OF THE
1968 SETTLEMENT AND JUDGMENT
UPON THE PRESENT ACTION, LEAVES
ONLY THE QUESTION OF DIEMATIC'S
BREACH OF THE 1968 AGREEMENT
AS TO WHICH IT MAY ASSERT ITS
DEFENSES IN THE ARBITRATION FORUM
WHICH IS SINGULARLY APPROPRIATE
TO DETERMINE THIS TECHNICAL
QUESTION OF FACT EXPEDITIOUSLY

In view of the application of the doctrine of res
judicata to the claims asserted by Diematic in its 1974 complaint,
it is apparent that the only remaining conflict between these
parties is that which PI set out in its demand for arbitration
(A52-53). In that demand PI asserted that Diematic has con-
tinually "...manufactured, used and sold trays covered by the
patent owned by [PI] and has breached the [Settlement] Agreement."
(A53). The claim of infringement and breach of agreement arises
from the fact that the said Agreement had licensed Diematic to
profit from the use and sale of PI's patented product for a
period terminating on March 6, 1969 and PI's belief that Diematic
has continued since March 6, 1969 to profit from the sale or use
of the patent.

The claims of invalidity, and anti-trust based on invalidity being foreclosed, the breach of the 1968 license agreement - whether or not Diematic continued to profit from the use or sale of PI's patent beyond March 6, 1969 - is the only question remaining, and is the one which PI seeks to have arbitrated. The parties themselves, in 1968, foreseeing the possibility of a dispute arising from the Settlement Agreement respecting future claims of infringement provided specifically that such disputes shall be submitted to arbitration in New York before the American Arbitration Association (A45-46). There is no law, statutory or decisional, nor is there any public policy of which appellant is aware, which holds invalid, or in contravention of the public interest such an arbitration provision limited, as it is, to disputes arising out of an agreement between two parties pertaining to a patent as to which the issue of validity has been finally and judicially determined.

On the contrary, public policy as well as federal statutory provisions, favor both the settlement of disputes and doing so by arbitration. 9 U.S.C. §1 et. seq.; Cobb v. Network Cinema Corp., 339 F. Supp. 95 (N.D. Ga. 1972); see also, Monroe Sander Corp. v. Livingston, 377 F.2d 6 (2nd Cir.), cert. denied, 389 U.S. 831 (1967). To hold otherwise in this case, on the ground of exclusive federal jurisdiction of patent

disputes, is to presume the existence of an open question of validity and to completely abrogate significant federal policies regarding settlement and arbitration in favor of keeping a patent within the reach of consecutive attacks by one who, if not successful initially, may re-litigate in this or any other Circuit notwithstanding a prior judgment.

It is established law that a suit (and necessarily an arbitration proceeding) relating to a license agreement is not a suit under the patent laws giving rise to exclusive federal jurisdiction under 28 U.S.C. §1338. Hartell v. Tilghman, 99 U.S. 547 (1878); Dale Tile Mfg. Co. v. Hyatt, 125 U.S. 46 (1888); Wade v. Lawler, 165 U.S. 624 (1899); Luckett v. Delpark 270 U.S. 496 (1926).

The District Court recognized that "the claim asserted" by PI is determinative of whether it is created "by the patent laws (e.g., claim for infringement) or is based upon some right created by state law." (A112). The Court also recognized that by so viewing the claim asserted, if it is determined that it does not fall within the exclusive jurisdiction of the federal courts, it may be decided by arbitration (A113-114). However, the Court then went on to find that an infringement in this case pre-supposes the existence of "...related issues of patent validity..." which therefor required that the arbitration instituted by PI be stayed (A114). The District Court failed to

consider the question presented whether the single issue of breach of the Agreement may be submitted to arbitration, where, as here, no issue of validity exists or could be raised.

Where a declaratory plaintiff seeks to forestall a threatened action based upon contract, or to oust another forum's jurisdiction previously invoked, federal court will and have looked to the character of the threatened or pending action to determine the appropriateness of the asserted federal question jurisdiction. Public Service Commission v. Wycoff Co., 334 U.S. 237 S. Ct. (1952); Product Engineering and Manufacture, Inc. v. Barnes, 424 F.2d 42 (10th Cir. 1970).

In view of the fact that PI's arbitration demand seeks resolution of a contract question, which proceeding is not considered a lawsuit, Mercury Oil Refining Co. v. Oil Workers International Union, CIO, 187 F.2d 980 (10th Cir. 1951), and that arbitration clauses are highly favored under 9 U.S.C. §2, Cobb v. Network Cinema Corp., 339 F. Supp. 95 at 98 (N.D.G.A. 1972) there is no basis on which to support the stay of arbitration imposed below. Indeed, the Court has itself remonstrated against patent appeals involving complicated questions of technical data which could be more easily determined by experts in another forum. General Tire & Rubber Co. v. Jefferson Chemical Corp. Inc., 497 F.2d 1283 at 1284 (2nd Cir. 1974).

In 1968 the parties prudently recognized that disputes might arise in the future and they selected the arbitration forum in which to resolve them. It is widely accepted that arbitration affords an expeditious route to resolve controversy by arbitrators who are expert in their field. Those who will sit in judgment of the arbitration instituted by PI will be drawn from a panel of men having extensive experience in electronics and patents. They will thus bring to bear upon the complex technical issue to be resolved a store of knowledge which would be, at best, difficult to communicate to the District Court in comprehensible terms, and which may lead to a swifter determination of the cause*.

Either Diematic has or has not violated the terms of the parties' 1968 Agreement and the answer may only be found in an evaluation of the technical data relating to PI's patent and Diematic's product. That search will be most easily and quickly conducted by expert arbitrators. There was no reason to stay that proceeding and this Court should direct its resumption.

* This is no less true even were this Court to find that res judicata does not apply to the question of validity. It would be needlessly premature for the District Court to hear the action before the arbitrators decide the narrow question of fact sought to be presented to them. Should the arbitrators decide that Diematic has not breached the Agreement an important issue is removed from the litigation and could well result in its termination; should they decide to the contrary, Diematic could oppose confirmation of an award to PI on the grounds asserted in its complaint. Such a course preserves both the Agreement and Diematic's asserted right to litigate validity again in an action that would be much shortened by a prior decision of the arbitration.

C O N C L U S I O N

For the foregoing reasons, appellant respectfully urges that the District Court's Order of September 30, 1974 be vacated in its entirety, and that the complaint be dismissed and the parties hereto be ordered to proceed with arbitration as demanded.

Respectfully submitted,

Stuart A. Summit
Gerard A. Dupuis
Ruth Balen
Miller & Summit
90 Broad Street
New York, New York 10004

January 17, 1975
New York, New York

A D D E N D U M

Portions of The Record In

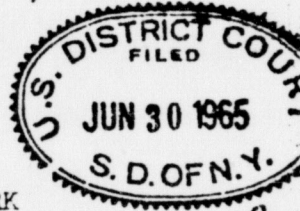
PACKAGING INDUSTRIES, INC. v. DIEMATIC
MANUFACTURING CORPORATION

United States District Court for the Southern
District of New York, Docket No. 65-Civ.-2007,
of which this Court is requested by Defendant-
Appellant to take Judicial Notice in Considering
this Appeal.

UNITED STATES DISTRICT COURT

OF

THE SOUTHERN DISTRICT OF NEW YORK



Packaging Industries Limited, Inc.)
PLAINTIFF

BILL OF INFRINGEMENT FOR
INFRINGEMENT OF PATENT

vs.

DIEMATIC MANUFACTURING CORP.,
DEFENDANT

CIVIL ACTION NO. 2007

1. This action arises under the Patent Laws of the United States.

2. Packaging Industries Limited, Inc. is a corporation organized and existing under the laws of the State of New Jersey and has its principal place of business at 154 Pine Street, Montclair, New Jersey, and is a citizen of the State of New Jersey and will be referred to hereinafter as PLAINTIFF.

3. DIEMATIC MANUFACTURING CORP. is a corporation organized and existing under the laws of the State of New York and has its principal place of business at 220 West 19th Street, New York, N. Y. and is a citizen of the State of New York and will be referred to hereinafter as DEFENDANT.

4. On February 23, 1965, United States Letters Patent No. 3,170,275 were issued to Howard A. Rohdin and Adolph A. Rohdin, both of Glen Ridge, New Jersey for an invention in METHOD AND MEANS FOR HEAT SEALING LIDS ON BLISTERS, and said Letters Patent will be referred to hereinafter as the PATENT.

5. On or about February 12, 1965, said Howard A. Rohdin and Adolph A. Rohdin assigned the entire right, title and interest in and to the PATENT to PLAINTIFF, and PLAINTIFF has caused said assignment to be recorded in the records of the United States Patent Office, and is the owner of the Patent.

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6. DEFENDANT within six (6) years past and at the present time is making, using and selling, within the Southern District of New York and elsewhere machines and components covered by the PATENT and thereby has infringed, and is infringing the same, and threatens to continue such infringement unless enjoined by this Court.

7. DEFENDANT, within six (6) years past, and within the Southern District of New York and elsewhere has actively induced others to infringe the PATENT and therefore is liable as an infringer of the PATENT, and threatens to continue to induce others to infringe the PATENT unless enjoined by this Court.

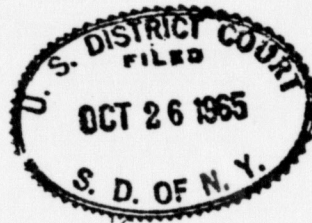
8. DEFENDANT, within six (6) years past and within the Southern District of New York and elsewhere has sold components of machines covered by the PATENT, constituting a material part of the invention covered by the PATENT, knowing the same to be especially made or especially adapted for use in an infringement of the PATENT. Said components are not staple articles or commodities of commerce suitable for substantial noninfringing use. DEFENDANT, therefore, is a contributory infringer of the PATENT, and threatens to continue to be a contributory infringer of the same unless enjoined by this Court.

9. PLAINTIFF has placed the statutory notice on all machines and components sold by PLAINTIFF or on behalf of PLAINTIFF, and has given written notice to DEFENDANT of its said infringement.

WHEREFORE, PLAINTIFF demands a preliminary and final injunction against further infringement and contributory infringement by DEFENDANT and those controlled by DEFENDANT and an accounting for profits and damages and an assessment of costs against DEFENDANT.


Attorney for PLAINTIFF

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK



----- X

PACKAGING INDUSTRIES LIMITED, INC.,

Plaintiff,

- against -

CIVIL ACTION FILE
NO. 65C2007

DIEMATIC MANUFACTURING CORP.,

ANSWER

Defendant.

----- X

Defendant, DIEMATIC MANUFACTURING CORP., answering
the complaint herein, alleges as follows:

FIRST: Admits the allegations contained in paragraphs numbered "1" and "3" of the complaint.

SECOND: Denies any knowledge or information sufficient to form a basis as to the truth of the allegations contained in paragraphs numbered "2" and "5" of the complaint.

THIRD: Admits the allegations contained in paragraph numbered "4" of the complaint, but denies that the said Letters Patent were issued for an invention as alleged in said paragraph of the complaint and further denies that any patentable invention is set forth in or covered by said Letters Patent.

FOURTH: Denies the truth of the allegations set forth in paragraphs numbered "6", "7" and "8" of the complaint. Defendant alleges that it has never at any time infringed upon, induced others to infringe upon, or been a contributory infringer of the aforementioned Letters Patent No. 3,170,275.

FIFTH: Defendant is without knowledge or information sufficient to form a belief either to admit or deny the allegation that plaintiff has placed the required statutory notice on all machines and components sold by plaintiff or on behalf of plaintiff, as alleged in paragraph numbered "9" of the complaint, and, therefore, denies the same and leaves plaintiff to its proof thereof; defendant admits receiving a letter, dated June 10, 1965, from ELLIOT IRA MILLER, alleging that defendant is infringing upon the said Letters Patent by making and selling trays for blister packaging machines, but defendant denied and continues to deny such infringement.

SIXTH: Further answering the complaint herein, defendant alleges that the complaint should be dismissed, since it did not, at any time prior to the filing of the complaint herein, and subsequent to the issuance of said alleged Letters Patent No. 3,170,275, manufacture or cause to be manufactured, use or cause to be used, or sell or cause to be sold, any machine and/or component coming within the terms of the claims of the aforesaid Letters Patent,

especially as limited by the disclaimers resulting from the prosecution of the application therefor before the United States Patent Office, and in view of the prior art. Defendant further alleges that it has not actively or passively induced others to infringe the aforesaid Letters Patent.

SEVENTH: Defendant alleges that the aforesaid Letters Patent are invalid and void for one or more of the following reasons:

(a) That said HOWARD A. ROHDIN and ADOLPH A. ROHDIN were not the original and first inventors or discoverers of any material and substantial part of the thing patented;

(b) That the said Letters Patent were granted for an old, exhausted and unpatentable combination, whereby the patentees have failed particularly to point out and distinctly claim the part or improvement which they claim as their invention according to the patent laws;

(c) That in view of the knowledge, practice and state of the art at the time of the alleged invention or discovery of HOWARD A. ROHDIN and ADOLPH A. ROHDIN, it required no invention whatsoever, but only the ordinary skill of persons skilled in the art or arts to which the alleged invention of said Letters Patent No. 3,170,275 here in suit appertain to produce said alleged invention, and that said Letters Patent are consequently invalid and void for lack of patentable novelty because they do not embody, describe or

disclose any patentable variations from what was common knowledge and/or practice in the art at the time of said alleged invention or discovery of HOWARD A. ROHDIN and ADOLPH A. ROHDIN.

(d) That the alleged inventors of said Letters Patent No. 3,170,275 are not the original and first inventors or discoverers of any material and substantial part of the alleged patented invention, and the alleged invention set forth in the said Letters Patent had previously been patented or described in printed publications prior to the alleged invention or discovery thereof or more than one year prior to the filing of the application for said alleged Letters Patent in the following patents:

<u>PATENT NO.</u>	<u>NAME</u>	<u>DATE</u>
2,460,460	Langer	Feb. 1, 1949
2,590,379	Cloud	Mar. 25, 1952
2,663,353	Rohdin	Dec. 22, 1953
2,714,416	Fener	Aug. 2, 1953
2,908,320	Rohdin	Oct. 13, 1959
2,928,222	Lindstaedt	Mar. 15, 1960
2,952,353	Rohdin	Sept. 13, 1960
2,970,414	Rohdin	Feb. 7, 1961
3,018,594	Phillips, et al.	Jan. 30, 1962
3,019,582	Freeman	Feb. 6, 1962
3,057,988	Reder	Oct. 9, 1962
3,092,945	Wiselman	June 11, 1963

and possibly others not now known to defendant, but due notice of which will be given according to the patent laws (35 USC 282);

(e) That any alleged invention described in said Letters Patent No. 3,170,275 was not patentable to the said HOWARD A. ROHDIN and ADOLPH A. ROHDIN at the time of the alleged invention or discovery thereof by them, in view of the state of the art at such date, and as known and practiced in this country by various persons at various places, indicated in said prior art patents and any alleged invention purported to be claimed in plaintiff's said Letters Patent, required for the production or perfection thereof and prior to the date of the alleged invention thereof, only the exercise of ordinary skill and knowledge by the patentees such as possessed generally by those skilled in the art;

(f) That on information and belief, the alleged invention described and claimed in said Letters Patent No. 3,170,275 have been in public use or on sale in this country for more than one year prior to the filing of the application for said patent by the said HOWARD A. ROHDIN and ADOLPH A. ROHDIN, by the patentees listed in the aforesaid letters patents at the addresses given in said patents, and on or prior to the dates of said patents, and also by others not now known by the defendant, but due notice of which will be given in accordance with the provisions of the Patent Laws (35 USC 282).

(g) That, upon information and belief, the claims of said Letters Patent are invalid because they are substantially and materially different from the subject matter described in the application as filed, and that the plaintiff is estopped to assert, and is not entitled lawfully to assert that the subject matter of the claims of said Letters Patent may validly be claimed or lawfully enforced in said Letters Patent;

(h) That the subject matter including the claims of the said Letters Patent No. 3,170,275 is ambiguous, defective, indefinite and misleading, and the claims are more aggregatious and are not patentable within the purview of the Patent Laws;

(i) That in view of the knowledge, practice and state of the art prior to the filing of said patent application for Letters Patent No. 3,170,275, and prior to the alleged invention and discovery thereof of said HOWARD A. ROHDIN and ADOLPH A. ROHDIN, the latter were required to and did limit the claims of said Letters Patent while the said application was pending before the United States Patent Office and the said claims are not infringed by any machine and/or components used by defendant;

(j) That the alleged invention was in public use or on sale in the United States more than one year prior to the date of the application upon which said Letters Patent No. 3,170,275 were issued;

(k) That said HOWARD A. ROHDIN and ADOLPH A.

ROHDIN were not the original, first, and joint inventors or discoverers of the thing described and claimed in said Letters Patent;

(1) That the alleged invention was known or used by others in the United States before the alleged invention or discovery thereof by said HOWARD A. ROHDIN and ADOLPH A. ROHDIN.

AS AND FOR A COUNTERCLAIM

As and for its counterclaim against the plaintiff, defendant alleges as follows:

EIGHTH: This counterclaim involves an action for declaratory judgment and for further relief in a case of actual controversy involving the validity and alleged infringement of U. S. Letters Patent No. 3,170,275, and the jurisdiction of this Court arises under Sections 2201 and 2202 of Title 28 of the United States Code; also under the Patent Laws (35 U.S.C.).

NINTH: Plaintiff alleges in its complaint that it is a corporation organized and existing under the laws of the State of New Jersey and has its principal place of business in Montclair, New Jersey.

TENTH: Defendant is a corporation organized and existing under the laws of the State of New York and has a regular and established place of business in New York, New York, and is a citizen of the State of New York.

ELEVENTH: Defendant, in the course of its business manufacturers, uses and sells heat sealing die components of blister packaging machines which plaintiff alleges infringes said Letters Patent No. 3,170,275. Plaintiff further alleges that by virtue of such manufacture, use and sales defendant is a contributory infringer of said Letters Patent and that defendant has actively induced others to infringe said Letters Patent.

TWELFTH: Defendant's heat sealing die components do not infringe the said Letters Patent, nor is defendant a contributory infringer of nor has defendant actively induced others to infringe the said Letters Patent.

THIRTEENTH: Defendant did not, at any time prior to the filing of the complaint herein or subsequent to the issuance of said Letters Patent, manufacture or cause to be manufactured, use or cause to be used, or sell or cause to be sold, any machines and/or components coming within the terms of the claims of said Letters Patent No. 3,170,275, or actively induce others so to do, especially as limited by the disclaimers resulting from the prosecution of the application therefor before the United States Patent Office, and in view of the prior art.

FOURTEENTH: Letters Patent No. 3,170,275 are invalid and void and without any force or effect for the

reasons fully set forth in paragraph numbered "SEVENTH"
(a-1) as if herein fully set forth.

FIFTEENTH: Defendant denies that the said heat sealing die components constitute infringement of the aforementioned alleged Letters Patent, or that the said Letters Patent are valid, or that it had infringed or is infringing upon the said alleged Letters Patent or that it is or has been a contributory infringer of said Letters Patent or that it has actively induced or is actively inducing others to infringe the said Letters Patent, whereby an actual controversy has existed and now exists between plaintiff and defendant. On information and belief, plaintiff will continue contending that defendant is infringing said Letters Patent, the validity of which have not yet been established, to the great and irreparable damage of defendant unless restrained by this Court.

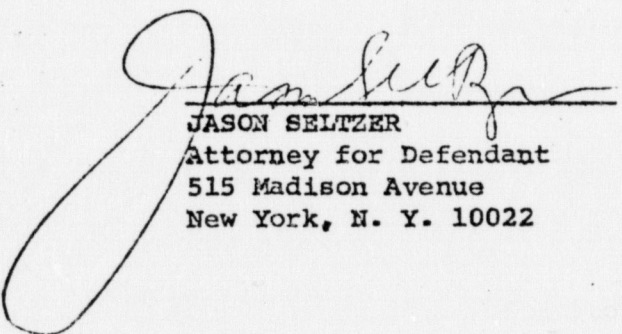
WHEREFORE, defendant demands judgment:

1. That the complaint herein be dismissed.
2. That the Court declare and decree that U. S. Letters Patent No. 3,170,275 are invalid and void and without any force or effect at law.
3. That the Court declare and decree that defendant has not infringed in any way upon the aforesaid Letters Patent No. 3,170,275.
4. That the Court declare and decree that the heat sealing dies manufactured, used and sold by

defendant in its business do not infringe upon said Letters Patent or that the manufacture, use or sale thereof by defendant does not constitute an infringement of said Letters Patent.

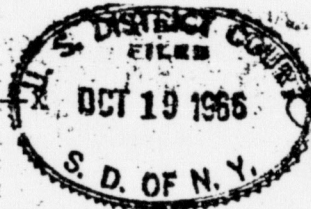
5. That preliminary and final injunction issue enjoining and restraining plaintiff, its officers, agents, attorneys, employees, associates and confederates, and others in privity with it from further asserting, contending, claiming or alleging that said defendant has infringed or is infringing the said alleged Letters Patent, and from notifying the trade orally or in writing that defendant is infringing said Letters Patent, and from generally interfering with defendant's business.

6. That defendant have judgment for its costs in this suit, an award of reasonable counsel fees and for such other and further relief as may seem proper to this Court.



JASON SELTZER
Attorney for Defendant
515 Madison Avenue
New York, N. Y. 10022

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK



PACKAGING INDUSTRIES LTD., INC.,

Plaintiff,

REPLY TO COUNTERCLAIM

-against-

DIEMATIC MANUFACTURING CORP.,


Defendant.

FILE NO.
65 Civ. 2007

-----X
Plaintiff, PACKAGING INDUSTRIES LTD., INC., replying
to the counterclaim herein, alleges as follows:

1. Denies the allegations of paragraph "TWELFTH" of the answer.
2. Denies the allegations of paragraph "THIRTEENTH" of the answer.
3. Denies the allegations of paragraph "FOURTEENTH" and asserts the validity of the patent as presumed by law, and further denies that the patent is invalid for any of the reasons recited in paragraph "SEVENTH (a-1)".

WHEREFORE, plaintiff demands judgment dismissing the counterclaims and awarding judgment as requested in the complaint.


ELLIOT IRA MILLER,
Attorney for Plaintiff

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UNITED STATES DISTRICT COURT FOR THE
SOUTHERN DISTRICT OF NEW YORK

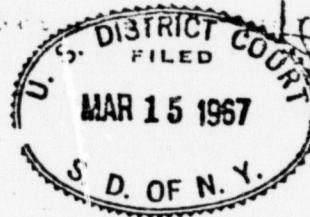
----- X
PACKAGING INDUSTRIES LIMITED, INC.,

Plaintiff

-against-

DIEMATIC MANUFACTURING CORP.,

Defendant.
----- X



Civil Action File No.
65C2007

AMENDED ANSWER

Defendant, DIEMATIC MANUFACTURING CORP., hereby
amends its answer to the Complaint herein and alleges as
follows:

AS AND FOR A SECOND COUNTERCLAIM

SIXTEENTH: This Counterclaim arises out of the
same transaction as set forth in the Complaint. This Court
has jurisdiction of this Counterclaim under the provisions of
Section 2 of the Sherman Act, 15 USC 2; and Section 4, of the
Clayton Act, 15 USC 15.

SEVENTEENTH: Plaintiff claims to be the assignee
of the entire right, title and interest in and to United
States Letters Patent 3,170,275.

EIGHTEENTH: Plaintiff has alleged in its Complaint
that it is a corporation incorporated under the laws of the
State of New Jersey and having its principal place of business
at Montclair, New Jersey.

NINETEENTH: Defendant is a corporation incorporated under the laws of the State of New York and having its principal place of business in New York City, New York.

TWENTIETH: Howard A. Rohdin, at the time of the filing of the patent application which resulted in United States Letters Patent 3,170,275, i.e., on or about September 12, 1963, was a director and President of the Plaintiff. He has been since that time, and is at the present time, a director and President of the Plaintiff.

TWENTY-FIRST: The Oath taken by the said Howard A. Rohdin and Adolf A. Rohdin as co-inventors of the application resulting in Patent 3,170,275 included the statement that they did not know and did not believe that the said invention was in public use or on sale in the United States more than one year prior to said application.

TWENTY-SECOND: Said statement in the Oath was willfully fraudulent and knowingly false, based upon the personal knowledge of Howard A. Rohdin, of sales, offers for sale and public use of the method and means described and originally claimed in the application resulting in United States Letters Patent 3,170,275 for more than one year prior to the date of said application.

TWENTY-THIRD: The knowing and willful misrepresentation of the facts, stated in Paragraph Twenty-First herein, to the Patent Office was material and the making of such statements strips Plaintiff of any exemption from the anti-trust laws - renders the United States Letters Patent 3,170,275

~~unenforceable~~ and invalid; and constitutes willful fraud on the Patent Office.

TWENTY-FOURTH: Plaintiff, by virtue of its fraudulently and illegally obtained United States Letters Patent 3,170,275, has attempted to monopolize, and has monopolized, the interstate and foreign commerce of heat impulse blister and card sealing machines and trays.

TWENTY-FIFTH: Plaintiff, with the full knowledge that those claims of United States Letters Patent relating to trays are invalid and fraudulently obtained by virtue of the aforesaid public use and sale in the United States more than one year prior to said application, has persisted in attempting to monopolize the interstate and foreign trade or commerce in such trays by threats of suit under those invalid patent claims and by bringing suit against Defendant and others under those patent claims.

TWENTY-SIXTH: Defendant has been damaged by virtue of Plaintiff's actions in Plaintiff's attempted monopolization and monopolization of heat impulse blister and card sealing machines and trays by virtue of its illegally obtained United States Letters Patent 3,170,275.

TWENTY-SEVENTH: Plaintiff, by its illegal acts of fraudulently obtaining the said Letters Patent 3,170,275 and by its monopolization or attempting to monopolize the trade or commerce of machines and trays for impulse heat sealing cards and blisters has violated Section 2 of the Sherman Act 15 USC 2 and Section 4 of the Clayton Act 15 USC 15

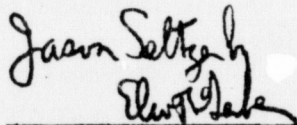
WHEREFORE, Defendant demands Judgment:

(1) that the Court decree that United States Letters Patent 3,170,275 is invalid and void and without any force or effect;

(2) that the Complaint herein be dismissed;

(3) that Defendant shall recover, under the provisions of the Clayton Act, threefold its damages sustained as a result of the Plaintiff's actions as set forth above, together with its costs in this suit, and

(4) that reasonable counsel fees and such other and further relief as may seem proper to the Court be awarded.



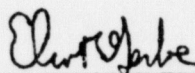
JASON SELTZER
Attorney for Defendant
515 Madison Avenue
New York City, N.Y. 10022
Telephone: 752-3530

OF COUNSEL:

Eliot S. Gerber
19 West 44th Street
New York City, N.Y. 10036
Telephone: 697-5888

CERTIFICATE OF SERVICE

I hereby certify that I mailed a copy of the foregoing Amended Answer this 14th day of March, 1967, to Elliot Ira Miller, 37 Wall Street, New York City, New York 10005, Attorney for Plaintiff.



Eliot S. Gerber

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UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK



PACKAGING INDUSTRIES LTD., INC. :
Plaintiff :
vs. :
DIEMATIC MANUFACTURING CORPORATION, :
Defendant :

CIV 65 2007

REPLY TO SECOND COUNTER-CLAIM

Plaintiff, Packaging Industries Ltd., Inc., hereby
replies to the second counter-claim of defendant, alleging
as follows:

4. Denies each and every allegation contained in
Paragraph Sixteenth of the amended answer;
5. Admits the allegations of Paragraph Seventeenth
of the amended answer, and alleges that it is the assignee
of the letters patent as stated in the complaint;
6. Admits the allegations of Paragraph Eighteenth
of the amended answer;
7. Admits the allegations of Paragraph Nineteenth
of the amended answer;
8. Admits the allegations of Paragraph Twentieth
of the amended answer;
9. Admits the allegations of Paragraph Twenty-
first of the amended answer;

10. Denies each and every allegation of Paragraph Twenty-second of the amended answer;

11. Denies each and every allegation of Paragraph Twenty-third of the amended answer;

12. Denies each and every allegation of Paragraph Twenty-fourth of the amended answer;

13. Denies each and every allegation of Paragraph Twenty-fifth of the amended answer;


14. Denies each and every allegation of Paragraph Twenty-sixth of the amended answer; and

15. Denies each and every allegation of Paragraph Twenty-seventh of the amended answer.

For a First Defense To
Defendant's Second Counter-Claim

16. Defendant's second counter-claim, contained in its amended answer, fails to state a cause of action.

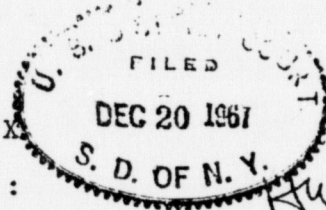
WHEREFORE, the plaintiff demands judgment dismissing the second counter-claim of defendant, Diematic Manufacturing Corporation.


Elliot Ira Miller, of
MILLER & SUMMIT
37 Wall Street
New York, New York 10005
WH 3-6040

Dated: New York, New York
March 21, 1967

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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK



----- X
PACKAGING INDUSTRIES LIMITED, INC., :

Plaintiff, :

v. :

DIEMATIC MANUFACTURING CORP., :

Defendant. :

PRE-TRIAL ORDER

Dkt. No. 65 Civ. 2007

Cal. No. 430(4)

----- X
On December 18, 1967, the parties to this action or their attorneys appeared before the Court at a pre-trial conference pursuant to local Calendar Rules 6 and 13 and Rule 16 of the Federal Rules of Civil Procedure, and the following action was taken.

1. The pleadings were agreed to be deemed amended in accordance with the framing of the issues in this action in paragraph 9 of this pre-trial order.

2. The parties agreed that the trial of this action shall be based upon this order and upon the pleadings as amended.

3. (a) The parties stipulated that the following facts are not in dispute in this action (each party reserving the right to object to the materiality of any such stipulated fact and its relevancy to the issues):

(i) The states of incorporation of the parties.

(ii) The places of business of the parties.

(iii) The issuance and assignment to plaintiff of the patent in suit.

(iv) That the Federal Court has jurisdiction because the case is one involving the federal patent (see §2201 of the Judicial Code and 28 U.S. Code §1338(a)) and anti-trust laws.

(v) The defendant's receipt of notice from plaintiff of alleged infringement.

3. (b) (i) It is the plaintiff's contention that the patent is valid and that any machines or trays as to which there were transactions by plaintiff more than one year before the patent application was filed were experimental and not commercially operable.

(ii) Defendant has infringed all claims of the patent both directly and contributorily.

(iii) Defendant induced others to infringe the patent and that defendant contributorily infringed the patent.

(iv) The patent was not procured with a knowingly or fraudulently false oath or that plaintiff's conduct in relation to obtaining of the patent was proper.

(v) Plaintiff has not violated the anti-trust laws by its employment of the patent.

3. (c) It is defendant's contention that:

(1) The patent is invalid on the basis of anticipation and obviousness because of the prior art, such prior art including prior patents to others, and public use and placing of the patented subject matter on sale more than one year before the patent application was filed.

(ii) The defendant has not infringed on the claims of the patent, and particularly of those claims relating to machines (Claims 1 - 5 and 11 and 12) and certain of the claims (such as Claim 7) relating to trays.

(iii) Defendant denies inducing others to infringe the patent and defendant's contributory infringement of the patent.

(iv) The patent was procured with a knowingly and fraudulently false oath and that plaintiff's conduct, in relation to obtaining of the patent, stripped it of any exemption under the anti-trust laws and renders the patent invalid.

(v) Plaintiff has violated the anti-trust laws by its employment of the patent.

4. (a) The exhibits which each party now expects to offer at the trial are those identified in the memorandum heretofore filed pursuant to local Calendar Rule 13 (b) III (g). Should any party hereafter decide to offer additional exhibits, prompt notice of that fact shall be given to each other party and to the Court by serving and filing a supplemental pre-trial memorandum. The supplemental pre-trial memorandum may be in a short form statement filed with the deputy clerk for calendars unless served at trial, when it is to be filed with the trial judge. It shall set forth the reason why the exhibit was not theretofore identified. No exhibit may be offered at trial unless identified in a pre-trial memorandum.

4. (b) The parties agree that the following documents which were marked for identification or which are otherwise identified in the order are authentic and may be received in evidence (each party reserves the right to object to the materiality or relevancy of each document preceded by the letter "A" and each party reserves the right to object to all or a portion of each document preceded by the letter "B" on the ground that it is inadmissible under the hearsay rule): The items in the memorandum and utilized by the parties on the depositions herein.

5. The parties agree that the witnesses whom each party now intends to call, along with the specialty of experts to be called, are those listed in the memorandum heretofore filed pursuant to local Calendar Rule 13 (b) III (h). Should any party hereafter decide to call any additional witnesses, prompt notice of their identity shall be given to each other party and to the Court by serving and filing a supplemental pre-trial memorandum. The supplemental pre-trial memorandum may be in a short form statement filed with the deputy clerk for calendars unless served at trial, when it is to be filed with the trial judge. It shall set forth the reason why the witness was not theretofore identified. No witness may be called at trial unless identified in a pre-trial memorandum.

6. The parties agreed to limit the number of expert witnesses as follows: The parties will call those expert witnesses listed in the pre-trial memorandum and no others.

7. The following are all of the claims for damages or for other relief asserted by the plaintiff in this action, as of the date of this conference:

(a) A preliminary and final injunction against further infringement and contributory infringement by defendant and those controlled by defendant.

(b) An accounting for profits and damages.

(c) An estimate for costs against the defendant.

8. The parties also agreed on the following matters:

(a) Plaintiff at this time expects to require one trial day for his direct case and two trial days in rebuttal; defendant at this time expects to require two trial days.

(b) Copies of printed patents may be used in place of the original patent or certified originals or copies thereof.

(c) Copies of the file wrapper, i.e., the papers in the Patent Office file of the patent in suit, may be used in place of the original documents or certified originals or copies thereof.

9. The issues to be tried are formulated by the Court with the consent and the agreement of the parties as follows:


(a) Is the patent in suit valid?

(b) Has defendant infringed and/or induced others to infringe and/or contributed to the infringement of said patent?

(c) Did plaintiff procure the patent in suit with a knowingly and fraudulently false oath? If so, did plaintiff's conduct in relation to obtaining of the patent strip it of the exemption under the anti-trust laws and render said patent invalid?

SO ORDERED:

U. S. D. J.


ELLIOT IRA MILLER of
MILLER & SUMMIT,
Attorneys for Plaintiff

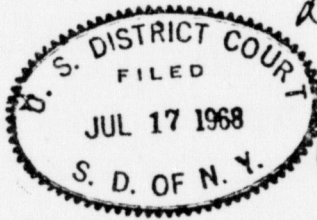
Jason Seltzer
JASON SELTZER,
Attorney for Defendant

Elliott Gerber
ELLIOT GERBER,
Attorney for Defendant

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APPENDIX A

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK



Packaging Industries Limited, Inc.,

Plaintiff

- v -

Diematic Manufacturing Corp.,

Defendant

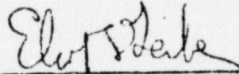
65 Civ. 2007
Cal. #430(4)

STIPULATION OF DISMISSAL

The parties hereto stipulate that this case and
the counterclaims are and shall be dismissed with prejudice,
as to all parties, as of this 15th day of JULY, 1968.

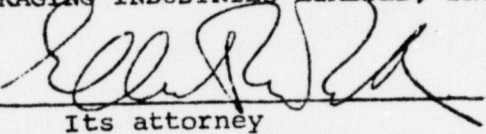
DIEMATIC MANUFACTURING CORP.

BY


Its attorney
Eliot S. Gerber
310 Madison Avenue
New York, N. Y. 10017
Telephone 697-5888

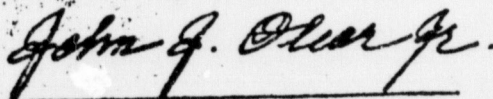
PACKAGING INDUSTRIES LIMITED, INC.

BY

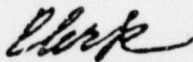

Its attorney
Elliot Ira Miller
90 Broad Street
New York, N. Y. 10004
Telephone 943-6040

SO ORDERED

7/17/68



United States District Judge



UNITED STATES COURT OF APPEALS
SECOND CIRCUIT

DIEMATIC MANUFACTURING CORP.,

Plaintiff-Appellee,

against

PACKAGING INDUSTRIES, INC.,

Defendant-Appellant.

Index No. 74-2452

AFFIDAVIT OF SERVICE
BY MAIL

STATE OF NEW YORK, COUNTY OF NEW YORK

ss.:

The undersigned being duly sworn, deposes and says:

Deponent is not a party to the action, is over 18 years of age and resides at 1504 Ocean Avenue,
Brooklyn, New York

That on the 17th day of January,

19 75 deponent served the annexed

BRIEF FOR DEFENDANT-APPELLANT

on Wyatt, Gerber & Shoup
attorney(s) for Plaintiff-Appellee

in this action at 230 Park Avenue - New York, New York

the address designated by said attorney(s) for that purpose by depositing a true copy of same enclosed
in a postpaid properly addressed wrapper, in ~~XXXXXX~~ official depository under the exclusive care
and custody of the United States ~~Post Office Department~~ within the State of New York, at approximately

Sworn to before me

this 17th day of January,

19 75

The name signed must be printed beneath

PHYLLIS R. THOMAS

Notary Public

ANNA REISS

Notary Public, State of New York
No. 41-3247510, Qual. in Queens Co.
Term Expires March 30, 19 75

Index No.

against

Plaintiff

Defendant

**ATTORNEY'S
AFFIRMATION OF SERVICE
BY MAIL**

STATE OF NEW YORK, COUNTY OF

ss.:

*The undersigned, attorney at law of the State of New York affirms: that deponent is
attorney(s) of record for*

That on the day of 19 deponent served the annexed

*on
attorney(s) for
in this action at
the address designated by said attorney(s) for that purpose by depositing a true copy of same enclosed
in a postpaid properly addressed wrapper, in — a post office — official depository under the exclusive care
and custody of the United States post office department within the State of New York.*

The undersigned affirms the foregoing statement to be true under the penalties of perjury.

Dated this day of 19

The name signed must be printed beneath

Attorney at Law

